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Evidence-Based Budgetary Policy: Speaking Truth to  
Power?

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## **Abstract**

The relationship between policy analysis and public budgeting has spurred quite some debate since the 1960s when Robert McNamara, Secretary of Defense in the Kennedy administration, launched his Planning Programming Budgeting System (PPBS) in an effort to improve the allocation of resources and efficiency in the public sector. More recently, we have witnessed a revival of performance budgeting due to the New Public Management (NPM) movement, which may be considered as a vehicle to serve old wine in a new bottle. The bouquet is fine as the negotiations about next year's budget are now flavored by performance information. However, the aftertaste is somewhat backward as the constraints of performance budgeting have become clear. In this paper we look back at the 50-year history of budgetary reform to assess the progress that we have made since the first efforts to establish a more evidence-based fiscal policy. At the end, we conclude that budgets are still largely decided by power rather than by truth, or evidence that something works.

## **Keywords**

Budgetary Reform, Evidence-Based Policy, Performance Budgeting, Public Budgeting, Spending Reviews



## Introduction

The relationship between policy analysis and public budgeting has spurred quite some debate since the 1960s when Robert McNamara, Secretary of Defense in the Kennedy administration, launched his Planning Programming Budgeting System (PPBS) in an effort to improve the allocation of resources and efficiency in the public sector. More recently, we have witnessed a revival of performance budgeting due to the New Public Management (NPM) movement, which may be considered old wine in a new bottle. The bouquet is fine as the negotiations about next year's budget are now flavored by performance information. However, the aftertaste is somewhat backward as the constraints of performance budgeting have become clear. In this paper we look back at the 50-year history of budgetary reform to assess the progress that we have made since the first efforts to establish a more evidence-based fiscal policy. Some 25 years after Osborne and Gaebler published their influential work 'Reinventing Government', practitioners and academics are still struggling to draw lessons from, often disappointing, results of new public management reforms worldwide.

With regard to performance budgeting, it should be noted that the notion of PB reform itself has gone through a transformation during the last decade. Early adopters such as Australia, the Netherlands and the United States have adapted their recipes in ways that feature a more differentiated approach, decoupling from the annual budgetary process and a focus on managerial use of performance information (Beazley & Moynihan 2016, p.1-3). Today, PB is no longer considered an effective tool to alter legislative appropriations, but rather as a way to increase fiscal transparency, align government priorities with activities and spending, improve program management, and foster organizational learning. Therefore, the line between performance management and performance budgeting has become increasingly blurred (Schick 2014, p 3). Four lessons in particular surface from recent academic insights: the degree to which performance information (PI) will actually be used by public sector organizations is key to reform success (Moynihan 2008, p.6, 95), active use of PI is more likely to happen at the agency level during executive budget preparation and budget execution rather than during the legislative phase (Joyce 2003, p.61; Posner 2009, p.7-8; Van Dooren 2011, p.429) and often for other purposes rather than budgeting (Hatry 2008; Hammerschmid et al. 2013) and this use of PI is highly dependent upon institutional factors such as power, leadership and culture (Dull 2009, p. 273; Moynihan & Pandey 2010, p. 14; Moynihan & Lavertu 2012, p. 599-600; De Jong 2016, p. 199-212).

The paper is structured as follows. In Section 2, we look at the efforts of budgetary reform from a historical perspective. In Section 3, we deal with the revival of performance budgeting as part of the NPM movement that emerged in the late 1980s. We conclude that the efforts to introduce performance budgeting may be characterized best as *performance-informed* budgeting. In addition, some argue that the NPM movement and consequently performance budgeting has lost momentum, raising the question what is on the horizon beyond performance budgeting. In Section 4, we feature two interrelated developments: the pursuit of an evidence-based budgetary policy and the growing interest in budgetary reviews, notably spending reviews in times of austerity. The paper concludes with further discussion.

## 2. Budgetary Reform

Performance budgeting has been a key driver of budgetary innovation in the United States for more than 60 years (Schick, 2014, p. 1). Shortly after WWII, the Hoover Committee recommended that “... the whole budget should be refashioned by the adoption of a budget based upon functions, activities and projects: this we designate a ‘performance budget’” (Hoover, 1950, p. 8; Schild, 1985, p. 21). The advice of the Hoover Committee was followed up in the early 1960s, when Robert McNamara asked the Rand Corporation to design a system that would facilitate communication between the planners and ‘budgeteers’. Since this time, efforts to improve the budgetary process have continued almost nonstop, with new initiatives taken even before previous efforts are implemented (see Annex 1).

The story of the Planning, Programming and Budgeting System (PPBS) is well-known (Figure 10.1). The model worked well at the department of Defense and so it was declared applicable to all federal departments and agencies. President Lyndon B. Johnson argued that the use of the most modern methods of program analysis would ensure that judgments would be based on more accurate information, highlighting those things that we ought to do more and those we ought to do less (Williams, 1998, p. 61; Radin, 2013, p. 17). Unfortunately, PPBS did not bring what was expected in other policy areas and not long afterwards, it silently passed away (Schick, 1973; Wildavsky, 1974, p. 206). Various factors may have contributed to PPBS’s demise—a lack of political leadership, bureaucracy politics and inbuilt flaws of the system, or a combination of several factors—but whatever the reason, the fact is that policy analysts and their work did not succeed in substantially breaking existing traditions and routines:

PPB failed because it did not penetrate the vital routines of putting together and justifying a budget. Always separate but never equal, the analysts had little influence over the form or content of the budget (Schick, 1973, p. 147).

In an effort to rescue policy analysis—“the heart and soul of PPB” (Rivlin, 1969, p. 915)—from public budgeting, Aaron Wildavsky argued that the ‘shotgun marriage’ between policy analysis and budgeting had to be annulled because it was already hard enough to do a good job of policy analysis without having to meet the arbitrary and fixed deadlines imposed by the budget cycle. He called for more selective use of policy analysis, for instance through a program memorandum supported by policy analysis for major dollar changes in an agency’s budget (Wildavsky, 1969, p. 196). Wildavsky argued that policy analysis may be considered an “activity that should be distinguished from budgeting, which can and should be carried out alongside it ... analysis can be accommodated in different ways if it is separated from budgetary structures rather than incorporated in them” (Jenkins, 1978, p. 193). If conventional budgeting is fundamentally anti-analytic, however, it is not clear how receptive budgeting is to policy analysis. Consequently, the efforts to funnel policy analysis through budgetary routines are not very likely to have an effect (Schick, 1977, p. 259).



Figure 10.1: *Schematic presentation of the PPB System*

Structural Aspects	Analytical Aspects			Informational Aspects
	<i>Planning</i>	<i>Programming</i>	<i>Budgeting</i>	
Classification of the budget into:	Formulation of objectives	Determination of personnel and resources needed for the fulfilment of objectives	Allocation of resources for selected programs	Progress reports on the implementation of the budget
Functions	Identification of alternatives	Determination of costs of such resources  Determination of the annual profile of costs	Presentation of the budget in the program structure evolved for the purpose	Adjustment in the light of progress
Programs	Evaluation of alternatives		Formulation of operational targets	Evaluation
Activities	Selection of the feasible course			
Cost elements				

Source: Premchand 1983, p. 328.

The rest is more or less history. Many countries had experience with similar devices (Prencard, 1989) and came to basically the same conclusions. In the late 1960s, the French government, inspired by the PPBS, launched a large-scale program, called *Rationalisation des Choix Budgétaires* (RCB), that was abandoned in 1980 for both structural and cyclical reasons (Perret, 2006). In the Netherlands, the *Commissie voor de Ontwikkeling van Beleidsanalyse* (COBA) serves very much like MacNamara's whiz kids. It adhered to the paradigm of economic rationality and methodological rigidity, and was finally dismantled in 1981 (Van Nispen, 2015). The British equivalent, *Program Analysis Review* (PAR), had significant impact at first, but gradually faded away because it was "unable to satisfy the technical, organizational and political preconditions for effective analysis" (Gray & Jenkins, 1982, p. 429) and eventually was replaced by the so-called scrutinies, the critical assessment of draft bills submitted to parliament (House of Lords, 1997-1998).<sup>1</sup>

Later efforts at budgetary reform were similarly unsuccessful, for example the Carter administration's Zero-Base Budgeting (ZBB), of which Aaron Wildavsky has concluded that "some butterflies were caught, no elephants stopped" (Wildavsky, 1975). The pursuit of budgetary reform was reinvigorated in the early 1990s with the emergence of the NPM movement and the associated revival of performance budgeting, i.e. the provision of non-financial information in order to improve the allocation of scarce resources and efficiency by the public sector. Kicking off in New Zealand, performance budgeting soon spread to the Anglo-Saxon world and then to the rest of the world, largely thanks to the annual meeting of

<sup>1</sup> The British effort to rationalize the budget was part of a three tier decision-making system that was further composed of the Central Policy Review Staff (CPRS), overseeing PAR, and the Public Expenditures Survey Committee (PESC), which did not embody a detailed analysis of policy options (Premchand, 1983, p. 340).

the Senior Budget Officers of the OECD, which basically served as an epistemic community.

The latest offspring was the Program Assessment Rating Tool, which was “arguably the most ambitious comprehensive effort to link performance and budgeting of recent times” (De Jong, 2015, p. 18). The coverage of federal programs was almost complete, but the outcome of the exercise in terms of budget allocation was hardly different than traditional budgeting. This leads Gilmour and Lewis to the view that it is significant that the PART scores had any impact at all, given the overwhelming importance of politics in making budgets (Gilmour & Lewis, 2006, p. 750). This applies even more to the utilization of PART scores by legislative branch, which should have induced interest of Congress in program evaluation for results (Norcross & McKenzie, 2006, p. 4). In reality, largely as a result of Congress’s disregard or even distrust of PART, budget authorization by Congress far from followed performance assessments (see Box 10.1). Moreover, PART examinations played only a limited role at best in debates about funding in Congress (Frisco & Stalebrink, 2008, p. 11). As Wildavsky observed with Zero-Based Budgeting, only a few minor programs were terminated as a result of PART.

In the mid-2000s, the Korean government introduced the Self-Assessment of the Budgetary Program (SABP), which was based on PART with some modifications (OECD, 2007). Ineffective programs received automatic spending cuts. In contrast to the US, the Korean parliament’s possibilities for amending the budget are more restricted. Not surprisingly, this resulted in a larger impact of the program performance assessment on budget allocation (Shin, 2013). With time, however, the gap increased between the self-assessments by ministries and the assessments by the Ministry of Finance and Strategy, as did complaints about the bureaucratic burden. Since this time, Korea has sought to improve the ministries’ ownership of assessing performance of budget programs.

### **BOX 10.1**

Although the relationship between PART scores and funding in OMB’s budget proposal has been shown to be slightly positive (Norcross & McKenzie, 2006; Gilmour & Lewis, 2006), there is no evidence that supports a substantial impact on final funding decisions by Congress. In fact, there is some evidence that the impact was limited at best. As an illustration, of the 99 programs that were listed for elimination in the FY 2006 budget proposal, only 15 had been eliminated by 2008. Even the Department of Education—a particular focus of PART, with 48 proposed program eliminations—only saw one of its programs terminated by Congress at the end of the Bush administration. In the 2008 PART-informed budget proposal, 27 programs were rated as ineffective. The breakdown below shows that instead of saving more than US\$2 billion on ineffective programs, the Bush administration spent an additional US\$786 million on these programs. This can hardly be seen as encouraging for a tool that was supposed to improve allocative efficiency by integrating performance and budgets.

Figure 10.2: *Breakdown of 27 programs rated ineffective by PART for FY2008*

Categories	Number	Performance informed savings	
		Proposed by OMB <sup>1</sup>	Enacted by Congress <sup>1,2</sup>
Eliminated previously	2	N/A	N/A
To be eliminated	8	-408 (100%)	-3 (-0.7%)
To be cut	8	-1,619 (12.6%)	+789 (+6.0%)
No cuts or increases	9	N/A	N/A
<b>Total</b>		-2,027	+786

Source: [www.expectmore.gov](http://www.expectmore.gov)

Notes:

1. Millions US\$ compared to FY2007 funding
2. These are aggregated figures: some programs were cut while others received increases

### 3. Performance Budgeting

Although performance budgeting is a container concept that means “different things to different people in different contexts” (Behn, 2003, p. 590), it may be described best as the effort “to strengthen the linkage between funding and results (outputs and outcomes), through the systematic use of formal performance information, with the objective of improving the allocative and technical efficiency of public expenditure” (Robinson, 2007, p. xxvi).

First, a distinction can be made between a broad and a strict definition of performance budgeting:

Broadly defined, a performance budget is any budget that presents information on what agencies have done or expect to do with the money provided to them. Strictly defined, a performance budget is only a budget that explicitly links each increment in resources to an increment in outputs or other results. The broad concept views [performance] budgeting in presentational terms, the strict version views it in terms of allocation (Schick, 2003, p. 101).

These two definitions of performance budgeting may be considered as existing at the two poles of a continuum. On one end is ‘performance as allocation’, characterized by the direct and explicit allocation of resources on the basis of units of performance—formula performance budgeting—mainly outputs. In order to obtain “the most effects for the least costs,” a budgetary process should create, as Roy Meyers has argued, “opportunities for comparing ratios of costs and effects: for one program from year to year, for all programs addressing one purpose, and across programs that address different purposes. Such

comparisons are viewed as a ‘*conditio sine qua non*’ by the adepts of formula performance budgeting” (Meyers, 1996, pp. 178-179). On the other end is ‘performance by information’, in which inputs are only loosely coupled to outputs or outcomes. Performance information competes with information from other sources (Schick, 2014). A third form of performance budgeting—‘presentational budgeting’—refers to the delivery of performance information (either inside or outside the budget) as background information for the purpose of accountability and dialogue with parliament and society (OECD, 2007, p. 21).<sup>2</sup> Arguably, a fourth type might be described as a managerial performance approach that focuses on managerial impacts and changes in organizational behavior, and may de-emphasize a strong budget linkage (Von Trapp, 2014, p. 2). In general it should be noted that the line between performance budgeting and performance management is increasingly blurred. In fact, performance budgeting today is seen more and more as a subset of performance management rather than a separate process (Schick, 2014, p. 3).

Taking the traditional line-item budget as a point of reference, Pollitt and Bouckaert (2004, p. 70) distinguish four stages of budgetary reform. It is debatable whether the last step—the switch to accrual-based accounting—is a necessary condition for performance budgeting and, vice versa, if accrual budgeting requires performance budgeting.

1. The provision of performance information;
2. The adaptation of the budget format and addition of other documents;
3. The adaptation of the budget procedures and timetable;
4. The adaptation of the method of charging from cash-based to accrual-based accounting<sup>3</sup>.

In this paper we primarily focus on the first step—the provision and subsequently the utilization of performance information, both of which are assessed by the OECD on the basis of its 2011 Performance Budgeting Survey. The outcome is reported in *Governance at a Glance 2013*, which, inter alia, contains a *Performance Budgeting Index* (PBI) composed of three components (OECD, 2013, p. 175):

1. Availability of performance information (65%);
2. Utilization of performance information in the budget negotiations (20%);
3. Sanctions in case of not achieving the targets (15%).

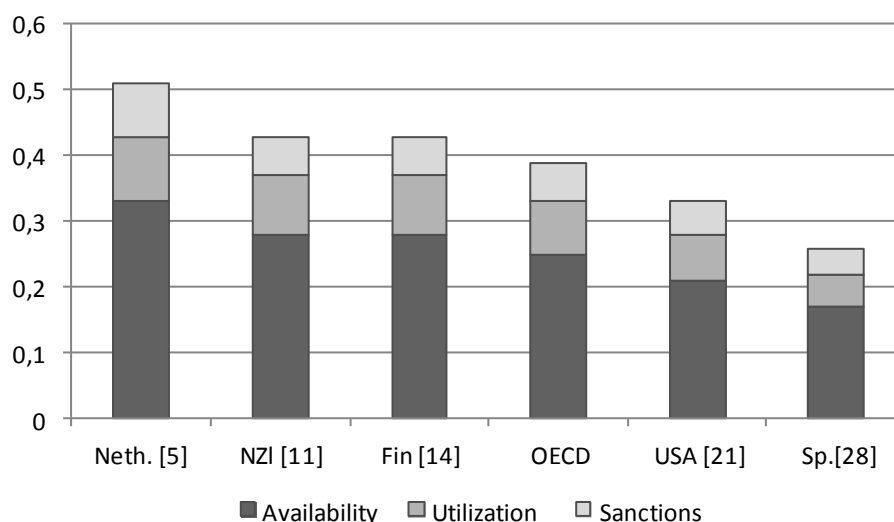
The outcome may be illustrated in Figure 10.3, which provides the PBI for a selected number of OECD countries (Van Nispen & Posseth 2009; Posseth 2010 and De Jong 2015) with the Netherlands at the high end (0.51) and Spain at the low end (0.26)<sup>4</sup>.

<sup>2</sup> Bouckaert and Halligan (2008) provide a similar trichotomy, putting performance budgeting into context, which distinguishes between performance administration (not consistent, not integrated), management of performance (consistent, not integrated) and performance management (consistent, integrated).

<sup>3</sup> The capital budget, setting apart investments, may have the same effect as accrual budgeting. One may question if the relative share of investments in the budgets justifies a completely new accounting system as it is less appropriate for most of the budget, which is geared to consumption.

<sup>4</sup> The OECD-survey indicates that Korea is doing best [0.66] on the PBI, while Portugal is lagging behind [0.18]. Note that the scores are based on information delivered by the national governments.

Figure 10.3: *Performance budgeting index (PBI) for a selected number of OECD countries*  
[ranking in between brackets]

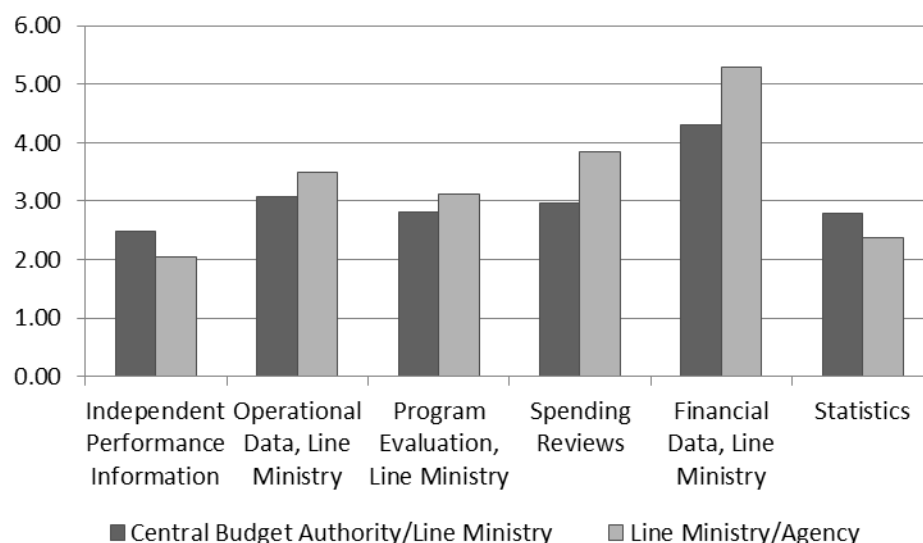


Source: OECD 2013

The litmus test of performance budgeting is in the utilization of performance information for the allocation of resources or the efficiency of the provision of goods and services. An assessment is provided by the OECD on the basis of its *2011 Performance Budgeting Survey*.<sup>5</sup> The question may be raised how often non-financial information is used during the budget negotiations by the Central Budget Authority (CBA) and line ministries, and between line ministries and agencies. Generally, non-financial information is used less frequently at the centralized level, i.e. in the budget talks between CBA and line ministries (mean 3.07) than at the decentralized level, i.e. in the budget talks between line ministries and agencies (mean 3.36). However, the difference is almost negligible (mean 3.07 vs 3.36). Note that neither financial nor statistical data are specific for performance budgeting, which is geared to the provision of non-financial information.

<sup>5</sup> The questionnaire does not match the outcome of the survey as the questions are renumbered. We refer to the numbering of the dataset that is posted on the OECD website.

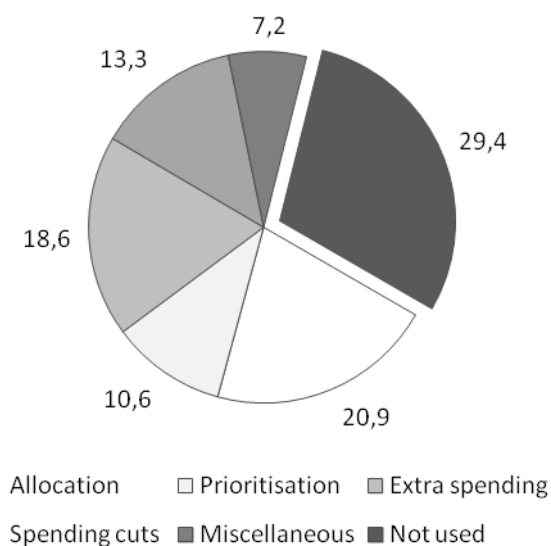
Figure 10.4: *The frequency of performance utilization during budget negotiations per category in OECD countries*



Source: OECD 2011 (Q7 + Q9)

Non-financial information is used for a variety of reasons, as shown in Figure 10.4, notably the allocation of resources and spending cuts. However, about a third of the OECD countries report that they are not using performance information (Figure 10.5) during the budget cycle for any reason.

Figure 10.5: *The utilization of performance information in OECD countries*



Source: OECD 2011 [Q 12]<sup>6</sup>.

<sup>6</sup> The category 'allocation' refers to allocation for organizations [9.4] as well as programs [11.5]. Similarly 'extra spending' stands for increase spending existing programs [8.8] and the creation of new programs [9.9]. Spending cuts are composed of the reduction of spending [9.3] and the elimination of programs [4.0].

*The Sovereign Debt Crisis*

Since 2009, the European sovereign debt crisis has arguably increased the priority of performance measurement and reinforced the link between performance measurement and financing (OECD, PBS, Q34). However, with the clear exception of the allocation for line ministries and agencies, line ministries used performance information less during the negotiations about next year's budget as compared with the previous year surveyed (Hawkesworth, 2012, pp. 33-34)<sup>7</sup>. In addition, more countries reported that performance information is not used at all: from 10 to about 30 percent (OECD, 2014, pp. 76-77). In fact we see a massive return to the incremental mode of budgeting on the basis of inputs rather than outputs or outcomes. Even in the case of New Zealand, which is generally considered one of the leading proponents of performance budgeting in the wake of the NPM movement, the budget is input-driven, although authorization takes place on the basis of outputs. However, although the information about outputs is measurable, it is often insufficient to enable the chief executives to purchase the appropriate inputs and to relate inputs to outputs (Posseth, 2010, pp. 138-139). Consequently, next year's budget is largely shaped by the previous year's budget.

At the same time, a survey of senior executives in ten European countries (n = 4.402) reveals that the relevance of performance information has increased as a result of the fiscal crisis (Hammerschmid et al., 2013)<sup>8</sup>. There are two possible reasons for these seemingly contradictory findings. First, the utility of performance information may be still growing in most areas, but the constraints of performance information in the field of public budgeting are widely recognized. Practitioners now acknowledge that only about 20 or 30 percent of the national budget is applicable to meaningful and budgetary relevant performance indicators. Unfortunately, the survey did not address the relevance and utility of performance information in the field of public budgeting. Second, none of the surveys are conclusive: there is quite a lot of variation at the disaggregated level of the individual countries, both in terms of ambition and intention as well as across sectors.

A detailed analysis of three European countries—Finland, the Netherlands, and Spain—indicates that most countries struggle with:

- The formulation of goals and indicators;
- The link between appropriations and outputs and/or outcomes;
- The causal relationship between outputs and outcomes (Van Nispen & Posseth, 2009, p. 20).

In addition, the utilization of performance budgeting relies heavily on a country's political setting and administrative capacity. Poland gradually built a sophisticated and detailed system of government-wide performance budgeting, but as political support waned, and with limited and scattered capacity at the Ministry of Finance, the non- financial information that was gathered largely remained unused for budgetary purposes (Kąsek & Webber, 2009; Hardt & De Jong, 2011; OECD, 2013).

<sup>7</sup> The previous survey took place in 2007. Note that both the wording and the categories has been changed, making the comparison debatable.

<sup>8</sup> A European Commission-funded research project, Coordinating for Cohesion in the Public Sector of the Future (COCOPS), comparatively and quantitatively assesses the impact of New Public Management-style reforms in European countries, drawing on a team of European public administration scholars from 11 universities in 10 countries (Hammerschmid et al., 2013).

Not surprisingly, the added value of non-financial information for the allocation of resources and efficiency in the public sector is low. There is hardly any evidence that non-financial information is used for reallocation of scarce resources during the preparation of the budget in the public sector (Frisco & Stalebrink, 2008, p. 11; De Vries & Bestebreuer 2010, p. 237; OECD, 2007, p. 67; De Jong et al., 2013, pp. 14-15). Insofar as performance information is used to enhance efficiency, it is more likely to occur in the implementation of the budget and by agency managers rather than by politicians (Joyce, 2003, pp. 36-37, Hammerschmid et al., 2013, p. 5; Von Trapp, 2014, p. 4). Furthermore, the one-size-fits-all template of performance budgeting does not recognize the uniqueness of programs (Radin, 2006, p. 50; Van Nispen & Posseth, 2009, p. 20). The requirement of homogeneous goods and services is often not met in the public sector (Van der Kar, 1981, pp. 106-112; Bestebreuer & Klaassen, 2003, p. 21): In fact, only a small portion of the budget consists of homogeneous goods and services. Consequently, the provision of non-financial information has become focused on compliance and has failed to deliver insight in effectiveness and efficiency (OECD, 2015, p. 48). These insights would be more likely to be gained from a cost benefit analysis (ex ante) or in-depth program evaluations (ex post).

Apart from the characterization of goods and services as being homogeneous or not, the degree to which public sector officials can be held accountable for program results differs from one program to another. The underlying assumption of NPM seemed to be that financial and results accountability could be integrated for the entire budget, regardless of differences in causality between inputs, outputs and outcomes. In cases of a more problematic causality, government organizations often consider performance accountability as threatening and choose to use performance information opportunistically. A more realistic approach to integrating financial and results accountability in the public sector is provided by a framework that distinguishes between the influence of government and the link between funding and result. As shown in Figure 10.6, there are four broad categories, with the upper left cell representing the best fit for inputs to outputs and outcomes. In the other three cells, the utilization of performance information use is linked only to outputs, or the use of information is disconnected from budget allocation altogether. This framework can be a helpful tool for identifying opportunistic use of performance information, for example dubious claims of effective spending following the attainment of policy goals or legitimizing claims for extra budget using measurable policy outcomes. Such a diversified approach formed the core of the conceptual model of the Accountable Budgeting reform that was introduced in the Netherlands from 2012. This reform addressed some of the persistent shortcomings of the PB system that had been attempted during the preceding decade.

Figure 10.6: *Diversified approach of performance budgeting depending on policy characteristics*

Link funding and result Potential impact on result	Strong	Weak
High	PBB/PIB Outputs and Outcomes	PM Disconnected from budget
Low	PBB/PIB Outputs only	PB Presentational use only

Source: Modified from De Jong in OECD 2015, p. 48



Many of the disappointing results of PB with regard to its potential for allocative efficiency may not come as much of a surprise, as we simply lack a criterion to make a choice between extra spending for ‘guns versus butter’. A cost-benefit analysis may provide insight in the various options, but happens to be more appropriate for the intra-sectoral rather than the inter-sectoral allocation of resources. In addition, the utilization of performance information depends on the level of aggregation:

Performance measurement can help public officials to make budget allocations. At the macro level, however, the apportionment of tax monies is a political decision made by political officials ... Thus, political priorities – not agency performance – drive macro budgetary choices (Behn, 2003, p. 590).

At the micro level of management, performance information may be used to improve efficiency, dividing outcomes by inputs (allocative efficiency) or outputs by inputs (technical efficiency). At the macro level, performance information is simply insufficient for budgeting with an eye on improving cost-effectiveness. What should parliament decide if targets are not met: to allocate more or less money?<sup>9</sup> Additional information is needed about cost-effectiveness to make a decision (Behn, 2003)<sup>10</sup>.

While performance budgeting continues to be widely advocated as a public finance management reform, experience shows us that the high expectations regarding the use of performance information in the budget cycle should be tempered. There is no guarantee that non-financial information—whether operational and relevant or not—will be used for the allocation of scarce resources or the improvement of efficiency in delivery of goods and services. Performance information is only one of many variables that are taken into account when making a decision. Despite claims to the contrary, the impact of performance budgeting is still unclear. There is hardly any evidence that the allocation of resources has been improved due to the availability of performance information. The same applies to the improvement of efficiency, linking inputs to outputs, and effectiveness, linking inputs to outcomes.<sup>11</sup> Based on the available evidence, the added value of adopting performance budgeting is more likely to be found in increased government transparency. Other positive effects that have been attributed to performance budgeting are mostly not observable in the budget itself and as such can be attributed more broadly to performance management. These are alignment of goals, supporting a results-oriented culture, policy innovations and better enabling ex-post policy evaluation (Poster, 2009, pp. 7-8; Schick, 2014; Speklé & Verbeeten, 2014; Van Dooren, 2011, p. 429).

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<sup>9</sup> The allocation of scarce resources is often the subject of what In ‘t Veld has called the “law of policy accumulation”, i.e. policy makers tend to respond in the same way regardless of the effectiveness or ineffectiveness of an instrument, namely by calling for “more of the same” (In ‘t Veld, 1998).

<sup>10</sup> This performance information use at the macro level remains largely unobservable by large-scale quantitative research. Therefore the available evidence is largely anecdotal and revealed mostly by qualitative case studies (De Jong, 2015, p. 14).

<sup>11</sup> A similar conclusion is drawn by de Lancer Jules regarding the utilization of performance information not directly related to the budget. Following Weiss, she points at non-instrumental modes of utilization (de Lancer Jules, 2008). In fact, the utilization of performance information has many faces (Hatry, 2008).

#### 4. What Is on the Horizon Beyond Performance Budgeting?

As the evidence on the added value of performance budgeting becomes clear, one may question what is on the horizon beyond performance budgeting. It could be argued that the NPM movement and consequently the pursuit of performance budgeting is “intellectually dead, an orthodoxy now played out and plagued by evidence of adverse by-product effects” (Dunleavy et al. 2006, abstract). The future is in ‘digital era governance’, focusing on the reintegration of services, holistic and ‘joined-up’ approaches to policy-making, and the extensive digitalization of administrative operations, all of which may incidentally promote efficiency and performance of the public sector.<sup>12</sup> While we do not contest the belief that *Information and Communications Technology (ICT)* will play a major role in governance and in public budgeting, we believe that the pursuit of efficiency in the public sector is still alive and kicking. The NPM movement may have sunk below the surface, but is not dead.<sup>13</sup> Performance budgeting is sometimes cynically dubbed a ‘zombie reform’ for this reason: no matter how often it is buried, the call for it keeps haunting us, and it returns time and again. The continued demand for non-financial information is illustrated in a statement of Peter Orszag, the director of the Office of Management and Budget during the first Obama administration:

I am trying to put more emphasis on evidence-based policy decisions ...  
Wherever possible, we should design new initiatives to build rigorous data about what works and then act on evidence that emerges – expanding the approaches that work best, fine-tuning the ones that get mixed results, and shutting down those that are failing (Orszag, 2009).

The pursuit of evidence-based budgeting by the Obama administration, dismissed by John Mikesell as a “budgetary wrinkle” (Mikesell, 2014, p. 287), may be considered an effort to feed the budget talks with evidence from other sources such as policy reviews and, in times of austerity, spending reviews,<sup>14</sup> which may be considered as an ‘extender’ of the continuum from ‘performance as allocation’ and ‘performance as information’.

The impact of the pursuit of evidence-based budgeting may constitute a major leap forward if “the Obama administration actually delivers on the promise by the President and his budget director to fund programs that have strong evidence of success and to end programs that fail to produce impacts” (Haskins, 2009, p. 50). However, proponents of evidence-based decisions should follow one round of the annual congressional appropriations process and critically assess how many decisions are based on any appeal to evidence before getting too excited as has been illustrated earlier by the utilization of the PART-scores.

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<sup>12</sup> The shift away from performance budgeting towards policy evaluation seems to related to the fact that the NPM movement, of which performance budgeting is an important component, is fading away (Dunleavy, 2005).

<sup>13</sup> A similar conclusion is drawn by De Vries, where he states, correctly, that NPM is focused on efficiency, not effectiveness (De Vries, 2010).

<sup>14</sup> Agencies are even obliged to employ program evaluation to assess performance, rigorously conducted as part of the budget development process (Mikesell, 2014, pp. 288-289).

#### 4.1 The Call for Evidence-Based Budgetary Policy<sup>15</sup>

The call for more evidence-based policy is frequently attributed to the Blair cabinet, which launched a large-scale effort to modernize government shortly after it took office. In a statement delivered to parliament, former Prime Minister Tony Blair and the Minister for the Cabinet Office Jack Cunningham argued that the government has to be:

... willing constantly to re-evaluate what it is doing so as to produce policies that really deal with problems; that are forward-looking and shaped by the evidence rather than a response to short-term pressures; that tackle causes not symptoms; that are measured by results rather than activity... policy making must also be a process of continuous learning and improvement (Blair & Cunningham, 1999, p. 15).

Why this ‘utility turn’ in practice as well as research (Solesbury, 2001, p. 4)? After all, evidence-based policy does not constitute a completely novel concept, although its absence and constraints are mainly lamented in practice (Banks, 2009).

A number of qualifications should be made with the focus on ‘what works’. First, what works should not be confused with what is desirable or preferable, not even when a cost-benefit analysis indicates that the benefits outnumber the costs. Furthermore, the availability of evidence does not imply that the government will act on evidence, or that an evidence-based policy will lead to goal attainment. After all, evidence is only one of the many variables that play a role in the design or revision of a policy. At best we can talk about evidence-informed policy, although the dividing line between evidence-informed and evidence-based policy is unclear, making the use of knowledge speculative. Second, the relationship between evidence and policy is not linear, and the evidence is highly context-specific (Young & Mendizabal, 2009, p. 1): What works in one setting may not work in another. The external validity is relatively low.

The current debate about evidence-based policy almost completely ignores the body of knowledge on policy analysis, which is directed at the generation of evidence. Besides, it is disputed what counts as evidence. Scientific information is frequently challenged by other schools of thought and bodies of expertise. In addition, governments often use a broader definition of evidence than the academic world (Davis, 2004, p. 24). In addition to scientific knowledge—information that has been put to a test—governments often refer to political judgment and practical wisdom, each lens having its distinctive protocol on what counts as ‘evidence’ (Head, 2008, p. 7). It goes without saying that scientific knowledge is often contested by non-scientific information from other “knowledge reservoirs” (Bekkers, 2014). The notion of *evidence-based* policy stands, as such, “in contrast to *opinion-based* policy, which relies heavily on either the selective use of evidence ... or on the untested views of individuals or groups, often inspired by ideological stand points, prejudices or speculative conjecture” (Davies, 2004, p. 3, italics added).

The search for evidence strongly resonates in the current debate about the consequences of the sovereign debt crisis, as articulated by Australian Prime Minister Kevin Rudd’s call for a robust, evidence-based policy-making process, basically echoing the gospel of policy analysis:

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<sup>15</sup> The section on the pursuit of evidence-based policy making is taken from Van Nispen (2015).

Policy design and policy evaluation should be driven by analysis of all the available options, and not by ideology... We're interested in facts, not fads (Rudd, 2008).

In the summer of 2009, the Australian government organized a large-scale roundtable on strengthening evidence-based policy. The focus was not on budgetary affairs, but the message was clear:

Undoubtedly, evidence has influenced policy, often for the good. However, practical policy choice is determined by interests, political preferences and power, as well as by evidence. Strident calls for more 'evidence-based policy' can reflect a political naiveté; or can hide a claim that politics should be run by 'experts'; or can be a cover for the role of interests (Pincus, 2009, p. 281)

A more evidence-based policy could, inter alia, prevent a Type I, Type II or Type III error and, as such, may contribute to the reduction of public expenditures (ABS, 2010, p. 2). In order to generate 'value for money'—effectiveness and efficiency—interventions should be tested in advance. However, a policy that is proven to have effect in an experimental setting will not necessarily be effective in reality. Therefore, many scholars and practitioners remain skeptical about the merits of evidence-based policy making (Van Twist et al., 2014).

## 4.2 Budget Reviews

The pursuit of a more evidence-based budget policy induced a renewed interest in program evaluation as a source of performance information. In an effort to strengthen the *ex post* evaluation, the Dutch government institutionalized a rotating system of policy reviews that should cover the whole budget in a period of seven years.

### *Policy Reviews*

In the early 1990s, the Dutch government established a “system of involuntary self-assessment” in order to provide better information on relevance, effectiveness, efficiency and cost of government programs to coalition governments at the time of budget formulation (Shaw, 2015, p. 81). A policy review (*beleidsdoorlichting*) is primarily focused on the delivery of policy-relevant information, i.e. the support of current policies. The final report should include a synthesis of the available program evaluations regarding the effects of the policy under scrutiny. Unlike program evaluations, no additional fieldwork is done to balance the positive and negative effects. Program evaluations may lead to conclusions in terms of goal attainment, effectiveness and efficiency, but the consideration of potential alternatives for existing policies is left for what is called Inter-Ministerial Policy Research (Interdepartementale Beleidsonderzoeken (IBO)). IBOs usually have a broader scope and generally look at (a specific aspect of) a number of interrelated policies. Finally, a spending review may be considered as an IBO, but geared towards the generation of potential savings. The various modes of policy analysis and evaluation are summarized in Figure 10.7, which highlights the main characteristics of each mode.

Figure 10.7: *Modes of policy analysis and evaluation*

Main characteristics	Policy Review <sup>1</sup>	Program Evaluation <sup>1</sup>	Inter-Ministerial Policy Research	Spending Review
Principal	Spending department	Spending department	Joint effort	Cabinet Committee
Role MoF	Programming, Guidelines	None	Selection, Guidelines <sup>2</sup>	Selection, Guidelines <sup>2</sup>
Aim	Arguments/information	Impact assessment	Policy alternatives	Potential savings
Unit of analysis	Program	Program	Policy	Policy
Focus	Policy relevance	Goal-attainment, effectiveness	Alignment, streamlining	Spending cuts
Decision			Cabinet	Cabinet <sup>3</sup>
Impact budget	Low	Low	Low	Potentially high <sup>4</sup>

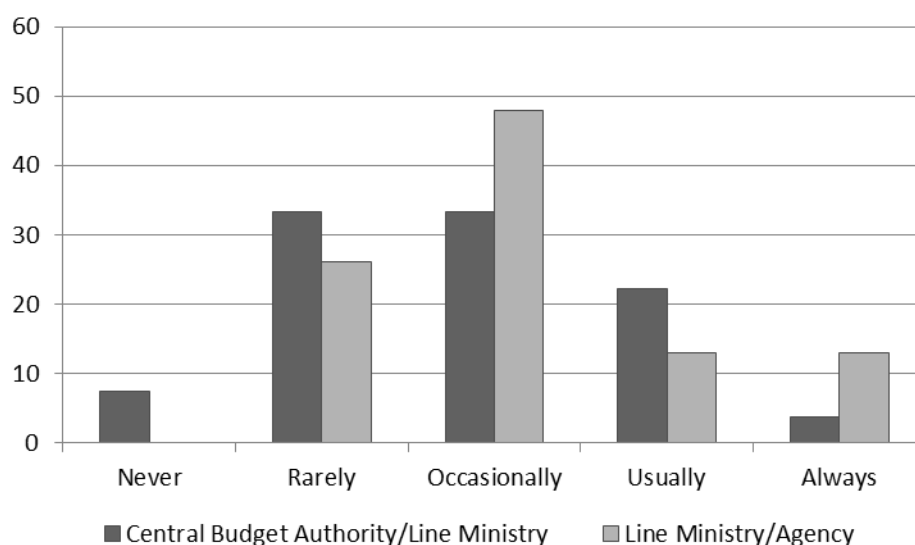
1. The policy reviews and program evaluations are subject of the *Regulation on Periodic Evaluations*.
2. Representatives of the MoF participate in the working groups.
3. The publication of the report is accompanied by a ‘cabinet view’.
4. The utilization of the potential savings is depending on the need for consolidation.

Source: MvF 2004; Schoch & Broeder 2013; Van Nispen 2015.

In contrast to IBOs and spending reviews, ownership of policy reviews is left in the hands of the line ministries. This is a less centralized, more tailor-made mode of governance than previous efforts to establish performance budgeting, which were applied across the board to all line items, regardless of the characteristics of the output of the government. The role of the minister of finance is basically limited to the formulation of the terms of reference and the provision of guidance. In addition, the budget rules contain a rolling plan to ensure that the whole budget is covered in a period of four to seven years. However, only 50% of the policy reviews are actually carried out, due to a lack of priority and capacity. Recently, the number of policy reviews has increased substantially due to closer monitoring by the Minister of Finance, who tables the issue of policy reviews twice a year at the cabinet meeting<sup>16</sup>.

<sup>16</sup> The difference between policy reviews and spending reviews is diminishing as policy reviews should also contain a minus 20% alternative from January 1, 2015 onwards.

Figure 10.8: *The utilization of program evaluation in the budget negotiations in OECD countries (as ratio)*



Source: OECD 2011 (Q7 + Q9)

The utilization of the findings of program evaluation (Figure 10.8) during the budget negotiations of the minister of finance, also referred to as the Central Budget Authority [CBA], and the line ministries [LM] or spending departments [average 2.81], is slightly lower than the utilization of the outcome of program evaluations by the line ministries in the budget negotiations with the agencies [average 3.13]. As we will see, program evaluations conducted as part of a CBA-run spending review are used more frequently in budget negotiations than program performance evaluations conducted by the line ministries (OECD, 2015, p. 7).

In times of austerity, across-the-board cuts and one-off measures are not adequate to reduce the budget deficit and public debt. A more evidence-based fiscal policy is needed for fiscal consolidation. However, the path from the utilization of performance information to fiscal consolidation is long. Many other variables are at play.

### *Spending Reviews*<sup>17</sup>

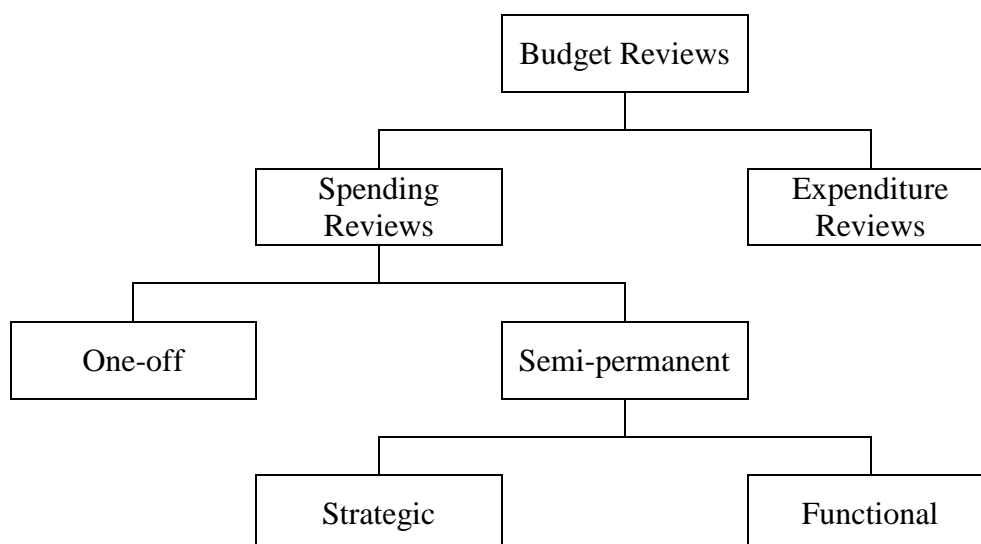
The guidelines for the spending reviews breathe the spirit of integrated policy analysis (Dunn, 2012) or, more precisely, policy evaluation. On the one hand, spending reviews look backwards as they are geared to an assessment of timeliness, effectiveness and/or efficiency. On the other hand, spending reviews look forwards as they seek to generate better options for the future and may be characterized as utilization-focused evaluation (Patton, 2008). The main aim of program evaluations is to improve the effectiveness of programs or the efficiency of expenditures. If there is reallocation, it is mostly within programs; if there are savings, they typically are cycled back into the same agencies or programs. This leads Allen Schick to the

<sup>17</sup> One of the first experiments with spending reviews was the so-called Reconsideration of Public Expenditures (*Heroverweging van overheidsuitgaven*, HO), a large scale-effort by the Dutch government to cut public spending in order to reduce the sky-high budget deficit in the 1980s. The interest in spending reviews gradually faded away in the early 1990s, when the economy recovered, but spending reviews made a revival in 2010 due to the consequences of the sovereign debt crisis.

cynical, but realistic, conclusion that “program evaluation ... comfortably coexists with incremental spending behavior.” However, program evaluations may not suffice for countries that face austerity. They may need bolder techniques that promote fiscal consolidation and stabilize public finance (Schick, 2014, pp. 17-18), i.e. spending reviews (Robinson, 2013; Van Nispen, 2015).

A recent survey indicated that 16 out of 32 OECD countries experimented with budget reviews as a tool to generate smart or targeted cuts to deal with the consequences of the sovereign debt crisis (OECD, 2012, p. 37). A subtle but crucial distinction should be made between various modes of budget review. Unlike expenditure reviews, which may end up in proposals for extra funding, spending reviews look for potential savings in relation to the baseline (Robinson, 2013) and, as such, compensate for “the fundamental asymmetry of the regular budget process which is capable of producing good options for new spending, but not of producing good options for new savings” (OECD, 2011, p. 81). Consequently, spending reviews do not take current funding as given, but also examine the consequences of alternative (read: lower) levels of funding (Kraan, 2007, p. 21; OECD, 2012, p. 115).

Figure 10.9: *A classification of budget reviews*



Source: OECD 2012; Van Nispen 2015

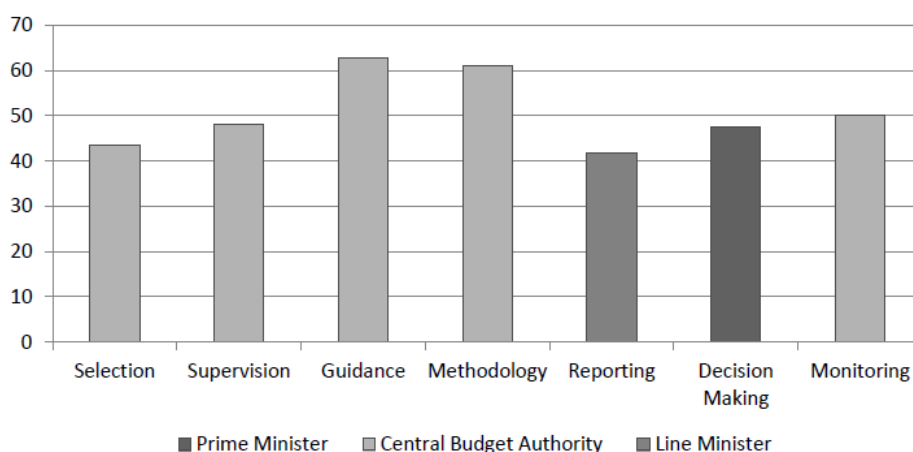
Budget reviews may be further subdivided into one-off efforts<sup>18</sup> and semi-permanent efforts to generate smart cuts. The latter may be further subdivided into functional reviews, which assess the effectiveness and efficiency of the implementation, and strategic reviews, which also scrutinize the timeliness of the objectives. The appraisal of proposals for extra funding does *not* belong to spending reviews (Robinson, 2013, pp. 4-5). Consequently, the Australian, British and Irish efforts cannot be considered as spending reviews, but rather as expenditure

<sup>18</sup> The one-off spending reviews in both Italy and Spain are mainly due to the rules of the Stability and Growth Pact, rather than the pursuit of a more evidence-based fiscal policy.

reviews.<sup>19</sup> In the mid 1970s, the Australian government established the so-called Expenditure Review Committee (ERC), which is at the centre of the preparation of the following year's budget.<sup>20</sup> However, its activities are best characterized as strategic reviews that do not require the development of mandatory saving options, rather than spending reviews (OECD, 2012, p. 111). In recent years, however, Australia has carried out a comprehensive *expenditure* review over three budget cycles (2008-10), which has all the characteristics of a comprehensive *spending* review (Robinson, 2013, p. 11).

The institutional setting of spending reviews is more or less similar and characterized by two institutional variables (Kraan, 2010, p. 14; OECD, 2010, p. 41). First, coordination is primarily left in the hands of the Minister of Finance, referred to as the Central Budget Authority (CBA), rather than the Prime Minister (PM) or the line minister (LM) in charge of the policy under review. In the case of decision-making about the potential savings that are generated by the spending reviews, however, the CBA comes second to the Prime Minister (47.4 vs 31.6 percent). Line ministries are primarily in charge of the drafting of the report (41.7 vs 37.5 percent).

Figure 10.10: *Overview of the main actor in charge of spending reviews per category of activity in OECD countries (as ratio)*



Source: OECD 2011 (Q 25).

A second characteristic of spending reviews is that the outcome is primarily adopted as part of the budget cycle (as shown in Figure 10.11), although many countries have indicated that the utilization of the potential savings may be attributed to more than one single category. However, even then the budget cycle serves as an important, if not the most important, platform for decision-making about the potential savings generated by the spending reviews. After all, the budget comes in the shape of a law and the decision about 'who gets what, when, how' belongs to the core of politics (Lasswell, 1936). As Aaron Wildavsky has argued, the allocation of resources is a political rather than an economic process.

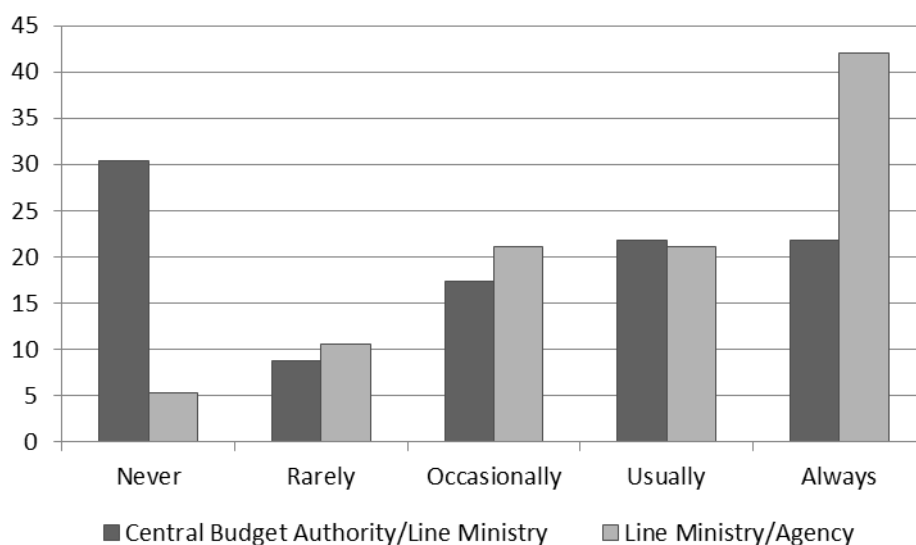
<sup>19</sup> The Irish spending review—Comprehensive Reviews of Expenditure—is modeled on the British example and constitutes, as such, the preparation of a multi-annual budget which sets three-year ceilings on ministry expenditures (Robinson, 2013, p. 11, fn. 6).

<sup>20</sup> The ERC has overseen in earlier times two periods of intense spending review activity focused on delivering fiscal consolidation, the first in the late 1970s and the second in the mid-1980s (Robinson, 2013, p. 10).



Generally, the outcome of spending reviews is used less frequently at the centralized level (CBA/LM) than the decentralized level (LM/agencies), although the mean—2.96 vs. 3.83—is not that far apart.

Figure 10.11: *The utilization of spending reviews in the budget negotiations in OECD countries* (as ratio)



Source: OECD 2011 (Q7 + Q9)

A comparison of two countries with a long-standing tradition of spending reviews—Canada and the Netherlands—indicates that the added value should not be overestimated, even if the savings are measured as a share of ‘in-scope’ spending (Van Nispen, 2015; Shaw, 2015). The utilization of the results of expenditure reviews in Anglo-Saxon countries—Canada and the UK—is slightly better due to the close link of the spending reviews with the budget cycle. However, the savings do not exceed 15 percent of ‘in scope’ spending (Shaw, 2015, p. 14).

## 5. Conclusion

This paper examines the relationship between policy analysis and public budgeting. Taking the PPBS as a point of departure, we addressed the question of whether we have made any progress in transforming the traditional incremental budgeting approach into a more evidence-based fiscal policy. More specifically, have policy analysts succeeded in putting non-financial information on the negotiating table? Is non-financial information taken seriously or merely used as additional background information?

The pursuit of a more evidence-based fiscal policy was supported by the NPM movement, which resulted, among other things, in a revival of performance budgeting, i.e. the provision of non-financial information for the allocation of scarce resources and efficiency in the public sector. The language may be different, but the main concepts are the same (Frederickson & Frederickson 2006: 173). Now that the NPM movement seems to have lost momentum—although not entirely—one may question to what extent the decline of the NPM movement has affected the pursuit of performance budgeting, notably as “governments cannot budget for results unless they manage for results” (Schick, 2014,

p. 3).<sup>21</sup> The later refers to a broader set of prescriptions that are loosely tied together by the assumption that public administration should be more like business administration. (West 2011: 1). The assumption happens to be unrealistic which begs the question why the management for results [MFR] is so persistent (West 2011: 116).

The current situation is somewhat ambiguous. Most OECD countries that experimented with performance budgeting struggle with the formulation of goals and indicators, the quality of non-financial information, and the links between inputs and outputs and between inputs and outcomes. Not surprisingly, the impact of performance information has been modest so far, even in the case of homogeneous goods and services. Like the results of social research (Weiss, 1979), the utilization of non-financial information is largely eclectic. It is primarily used as additional background information or as political ammunition in budget negotiations, both for extra spending and spending cuts, and is simply ignored if not useful. With few exceptions, there is hardly any evidence that performance information has induced either re-allocation of money or increased efficiency in the public sector through the national budgeting process. Agency and program management are probably better places to look for success of this reform.

In many countries we see a retreat of performance budgeting as the constraints of the ‘one size fits all’ approach of performance budgeting has become clear. The story of PART is illustrative. The coverage of ‘the most ambitious comprehensive effort to link performance and budgeting of recent times’ was almost complete, but the impact on funding largely negligible. However, that is not to say that the demand for non-financial information has completely disappeared. To the contrary, the global financial crisis has increased the relevance of performance information in general and, more specifically, for budgeting (OECD, 2011; COCOPS, 2013), although this has not translated into an increase in the utilization of non-financial information. Increasingly, non-financial information is generated, if relevant, by means other than the budget, such as program evaluations and, in times of austerity, spending reviews. However, one may expect that interest in spending reviews (and the results of such reviews) will fade away as the economy recovers and the need for the generation of potential savings disappears.

Finally, what is on the horizon beyond performance budgeting? The call for a more evidence-based fiscal policy clearly deserves the benefit of the doubt, but the initial enthusiasm has been replaced by a growing skepticism, fueled by the relatively low impact of performance budgeting across the world. The outcome is a hybrid mode of public budgeting, a mix of inputs and outputs, which may be characterized at best as performance-informed budgeting (Joyce 2011). By far the largest part of the budget is still allocated on the basis of inputs rather than outputs or even outcomes. Like its predecessors—PPBS and ZBB—performance budgeting did not manage to break the budgetary routines, i.e. to replace incremental budgeting with a configuration of performance budgeting (Schick, 2014, p. 7). Unfortunately, budgets are still largely decided by power rather than by truth, or evidence that something works.<sup>22</sup>

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<sup>21</sup> It should be noted that performance budgeting used the NPM movement as a vehicle, but has dynamics of its own.

<sup>22</sup> As Wildavsky’s seminal work on the budgetary process noted, it would take a totalitarian regime to fully embrace a normative theory of budgeting, for this would imply the end of politics (Wildavsky, 1992, p. 429).

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Annex 1: *The Stages of Budgetary Reform in the United States*<sup>23</sup>

<b>Date</b>	<b>Reform</b>	<b>Description</b>
1921	Budget and Accounting Act of 1921	Created the executive budget and the Bureau of the Budget (BOB); consistent with the control orientation for budgeting
1937	Brownlow Committee	Created the Executive Office of the President (EOP) with expanded White House staff, including moving BOB from the Department of the Treasury
1940s-1950s	Hoover Commissions	Focused on ‘performance budgeting’ consisting of establishing closer relationships between resources (inputs)
1960	Planning Programming Budgeting System	An effort to more consciously connect resources with results, first in the Department of Defense (successfully) and then with less success in civilian
1970	Management by Objectives (MBO)	Nixon-era strategic planning efforts
1970s	Zero-Based Budgeting (ZBB)	Carter administrations’ attempt to more systematically review existing programs in the budget process.
1990s	Government Performance and Result Act of 1993 (GPRA)	The efforts of the Clinton administration improve service delivery by requiring that federal managers plan for meeting program objectives and providing them with information about program results and
2003-2008	Program Assessment Rating Tool (PART)	The method used by the Bush administration to systematically evaluate federal programs.
2010-2016	GPRA Modernization Act of 2010	In an attempt to encourage performance information use, the Obama Administration mandated federal agencies to engage in quarterly data driven reviews of performance information for

Source: Joyce (2003), p. 9 (adapted); Moynihan & Lavertu 2011.

<sup>23</sup> A number of these initiatives refer more to management reform than to budget reform.